

Quarterly Review of Investment Strategy

Bernalillo County, NM



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Bernalillo County Investment Committee

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Table of Contents

 Investment Priorities

 Investment Strategy Last Quarter






 Review of Markets and Current Portfolios

 Investment Strategy for Coming Quarter

Investment Priorities

Investment Priorities

Our investment objectives and philosophy are constant with all of our clients:

-  ***Safety is primary objective***
-  Transparency
-  Compliance
-  Liquidity
-  Yield

Investment Objectives

- Ladder investments to best match cash flows and cash needs – smooth ladder.
- Comply with investment policy, including the liquidity requirement, which says that funds equal to 15% of budget should mature within 30 days -- \$79 million.
- The Liquidity requirement will change with the new fiscal year 2017 (FY17) budget, see proposed investment policy updates.
- Stay abreast with current market conditions to best manage market and interest rate risk.
- Maintain a high level of communication between departments to facilitate optimal investment strategy.

Investment Strategy – Last Quarter

Fiscal Year 2016 – Previous Quarter Strategy*

Operating Funds Portfolio

- Interest rates have come down since the beginning of 2016.
- The focus of the working group continues to be on putting more cash to work for the County to improve investment earnings.
- There is consistently about 60% of the County's operating funds held in cash accounts (negotiated savings accounts). As of March 31, 2016, 35% of the County's operating funds would be required to be held in these accounts to satisfy the liquidity requirement in the policy.
- Working group discussions have turned to ways to make the investment process more efficient so that we can act more quickly when markets look favorable.
- The Investment Working Group will continue to review opportunities to invest the cash, build the investment ladder and improve portfolio performance.
- Public Trust will execute on decisions made by the group after receiving the two signatures required for any trade, per the investment procedures.

Fiscal Year 2016 – Previous Quarter Strategy*

Bond Proceeds Portfolio

- The Bernalillo County Bond Proceeds portfolio was created as of July 1, 2015.
- This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- A new cash flow projection has been created by the Accounting and Budget office, specifically for the Bond Proceeds portfolio.
- The County recently issued debt and the bond proceeds funded on March 22, 2016.
- The Working Group is discussing new procedures regarding bond proceeds and where to deposit those proceeds, now that we have a separate Bond Proceeds investment portfolio.

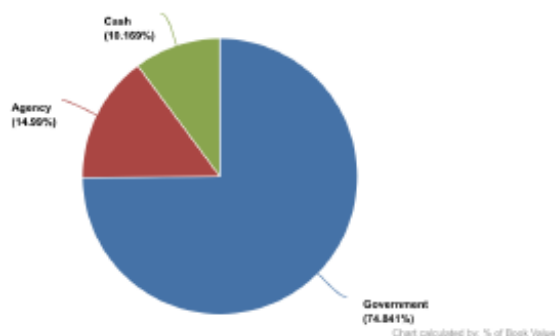
Review of Current Portfolio and Markets

Bernalillo County Operating Funds Portfolio – June 30, 2016

	Market Value + Accrued	% of Total	Book Yield
Summary of Investment Funds:			
US Treasury Securities	\$ 75,172,472.44	31.86%	0.584%
US Agency Securities	\$ 15,126,006.94	6.41%	1.039%
Cash - Wells Fargo MMF	\$ 10,182,682.45	4.32%	0.250%
Summary of Negotiated Bank Deposits:*			
Wells Fargo Savings	55,132,511.44		0.187%
First National Bank Santa Fe	25,062,743.28		0.247%
Bank of the West	55,298,484.69		0.295%
Total Month-end Bank Balances	\$ 135,493,739.41	57.42%	0.242%
Total Investable Funds	\$ 235,974,901.24	100.00%	0.403%
Previous Month Total Investable Funds	\$ 331,231,028.72		0.326%
<i>* Average Monthly Bank Deposit Balances (on which returns are calculated):</i>			
Wells Fargo Savings	125,664,001.53		
First National Bank Santa Fe	25,057,766.08		
Bank of the West	55,312,082.68		
Total Average Bank Balances	\$ 206,033,850.29		

Balance Sheet			
Book Value + Accrued			100,319,140.89
Net Unrealized Gain/Loss			164,157.03
Market Value + Accrued			100,483,297.72
Index Comparison Summary			
Risk Metric	Portfolio	Index	Difference
Duration	0.735	0.973	-0.238
Yield	0.447	0.44	0.007
Years to Effective Maturity	0.74	0.978	-0.238
Years to Final Maturity	0.74	0.978	-0.238
Average Credit Rating	AAA	AAA	---

Fixed Income Holdings by Market Sector



Cash and Fixed Income Summary

Risk Metric	Value
Cash	2,135.89
MMFund	10,182,682.45
Fixed Income	90,298,479.38
Duration	0.735
Convexity	0.012
WAL	0.741
Years to Final Maturity	0.74
Years to Effective Maturity	0.74
Yield	0.447
Book Yield	0.619
Avg Credit Rating	AAA/Aaa/AAA

Index: BofA ML 1-Yr TBILL

Balance Sheet			
Book Value + Accrued		25,551,988.50	
Net Unrealized Gain/Loss		18,286.43	
Market Value + Accrued		25,570,274.93	
Index Comparison Summary			
Risk Metric	Portfolio	Index	Difference
Duration	0.669	0.973	-0.304
Yield	0.439	0.44	-0.001
Years to Effective Maturity	0.672	0.978	-0.306
Years to Final Maturity	0.672	0.978	-0.306
Average Credit Rating	AAA	AAA	---

Fixed Income Holdings by Market Sector

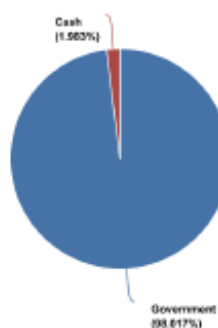


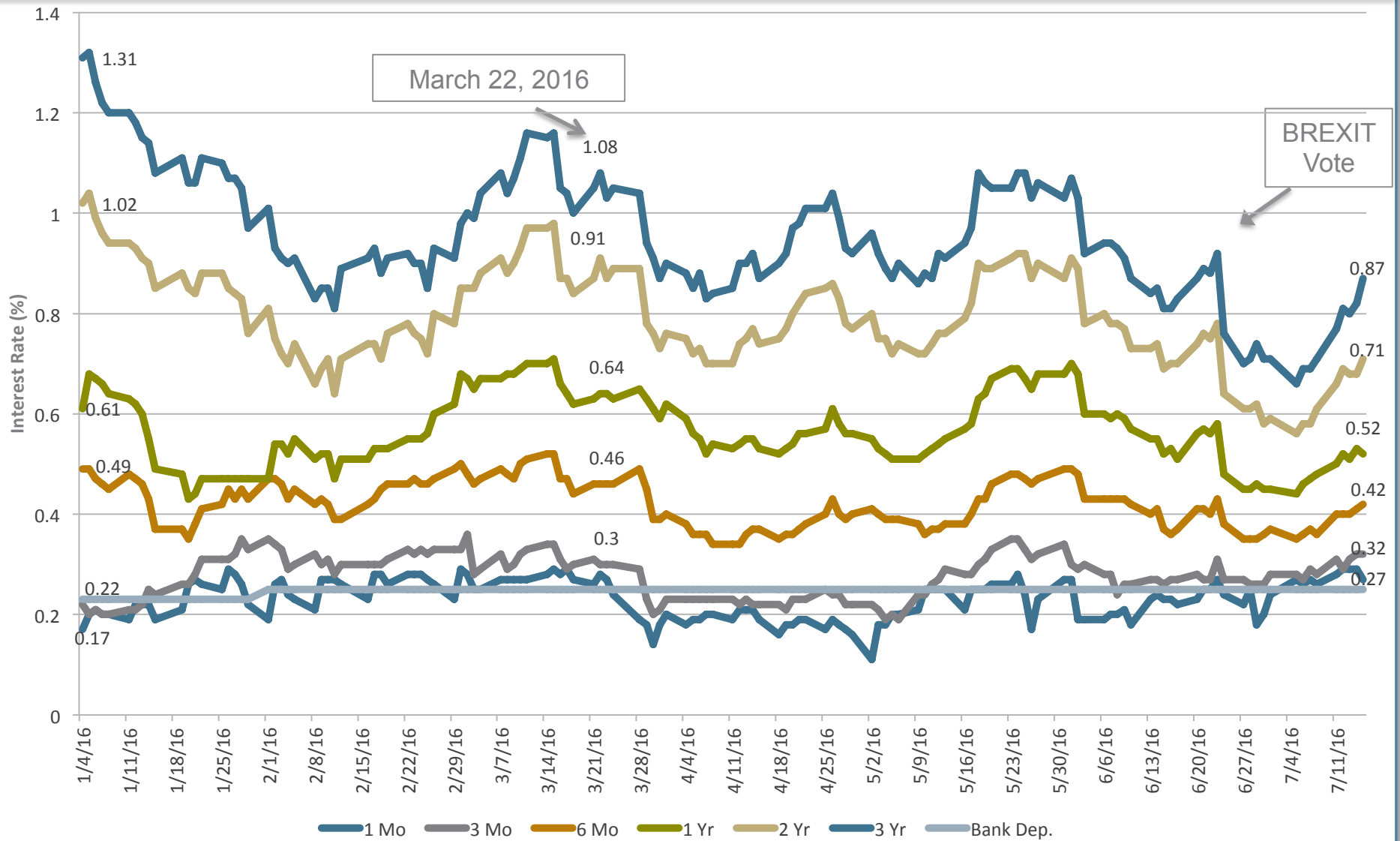
Chart calculated by: % of Book Value

Cash and Fixed Income Summary

Risk Metric	Value
Cash	400.53
MMFund	505,602.04
Fixed Income	25,064,272.36
Duration	0.669
Convexity	0.009
WAL	0.673
Years to Final Maturity	0.672
Years to Effective Maturity	0.672
Yield	0.439
Book Yield	0.542
Avg Credit Rating	AAA/Aaa/AAA

Index: BoFA ML 1-Yr TBILL

US Treasury Rates 1/4/16 to 7/15/16



Flattening Yield Curve

U.S. Treasury 10-Year Term Premium at All-time Low Risk compensation falls further in Brexit aftermath



US Treasury Interest Rates – Change to Date Since Dec 31, 2015

Treasury Sec.	31-Dec-15	15-Jul-16	Change
1 mon	0.14%	0.27%	0.13%
3 mon	0.16%	0.32%	0.16%
6 mon	0.49%	0.42%	-0.07%
1 year	0.65%	0.52%	-0.13%
2 year	1.06%	0.71%	-0.35%
3 year	1.31%	0.87%	-0.44%

Source: Treasury yields - United State Treasury:

[http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield.](http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield)

Investment Strategy – Coming Quarter

Recent Developments and Research Requests

- There has been significant market reaction to the Brexit vote, driving longer rates down to historic lows and flattening the yield curve.
- Global events continue to cause significant volatility in the markets.
- The Investment Working Group is discussing options for further diversifying the investment portfolios away from high concentrations in banks deposits.
- The working group requested that Public Trust do research on:
 - Certificate of Deposit Account Registry Service (CDARS)
 - High grade Municipal securities
 - New Mexico Local Government Investment Pool (NMLGIP)
- Given that the Investment Working Group has been working together for over two years and has worked diligently on investment policy and procedures, there is room to make some changes to policy for more nimble and effective management, while maintaining the primary objective of safety.
- It is important to clearly define the different investment components and to be able to adapt to quickly changing markets to most effectively manage the public funds entrusted with the County.

Investment Strategy - Operating Funds

- Interest rates have come down since the beginning of 2016.
- The focus of the working group continues to be on putting more cash to work for the County to improve investment earnings.
- As of June 30, 2016, 57.4% of the County's operating funds held in cash accounts (negotiated savings accounts). As of June 30, 2016, 33.5% of the County's operating funds would be required to be held in these accounts to satisfy the liquidity requirement (15% of budget) in the policy.
- Working group discussions have turned to ways to make the investment process more efficient so that we can act more quickly when markets look favorable. One consistent recommendation is to more clearly define the different investment components (Operating Funds – Liquidity, Operating Funds – Longer-term) and assign distinct individual strategies.
- The Investment Working Group will continue to review opportunities to invest the cash, build the investment ladder and improve portfolio performance.

Investment Strategy – Bond Proceeds

- ❏ The Bernalillo County Bond Proceeds portfolio was created as of July 1, 2015.
- ❏ This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- ❏ The portfolio is invested in a smooth ladder of securities with \$1.5 million maturing each month to fund project draws.
- ❏ A new cash flow projection has been created by the Accounting and Budget office, specifically for the Bond Proceeds portfolio.
- ❏ The County recently issued debt and the bond proceeds funded on March 22, 2016.
- ❏ As can be seen on slide 13, interest rates have come down since the bonds funded in March. Now that the Investment Working Group has been working with this portfolio for a full year, there is room to tweak processes and the cash flow to capitalize on investment opportunities.

Registered Investment Advisor – Standard of Care

Per Public Trust Advisors' current scope of work for Bernalillo County, we are required to prepare a quarterly investment review and present it to the Investment Committee and the Board of Finance. As a Registered Investment Advisor (RIA) under the Securities Exchange Act of 1940, we act in a fiduciary capacity for the County.

A fiduciary relationship is generally viewed as the highest standard of customer care available under law. Fiduciary duty includes both a duty of care and a duty of loyalty. Collectively, and generally speaking, these duties require a fiduciary to act in the best interest of the customer, and to provide full and fair disclosure of material facts and conflicts of interest.

~ Securities Industry and Financial Markets Association (SIFMA)

SIFMA Fiduciary Standard Resource Center, <https://www.sifma.org/issues/private-client/fiduciary-standard/overview/>

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